

MULTIMEDIA



UNIVERSITY

STUDENT ID NO

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 2, 2019/2020

**BFN 2114 – INVESTMENTS**  
(ALL SECTIONS)

**3 MARCH 2020**  
**9.00 A.M. – 11.00 A.M.**  
(2 Hours)

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### INSTRUCTIONS TO STUDENTS

1. This questions paper consists of 7 pages with **TWO** sections.
2. Answer **ALL** questions in **Sections A and B**. The marks for each section are given in the question paper.
3. Please write your answers for Section A and B in the answer booklet.

**SECTION A (40 marks): Answer ALL questions. Choose the best answer.  
Each question carries 2 marks.**

- Q1. An example of a value weighted stock market indicator series is the
- a. Dow Jones Industrial Average.
  - b. Standard & Poor 500 Index.
  - c. Shearson Lehman Hutton Index
  - d. Value Line Index.
  - e. Nikkei Dow Jones Average..
- Q2. Which of the following is NOT a market value-weighted series?
- a. NASDAQ Industrial Index.
  - b. Dow Jones Industrial Average.
  - c. Wilshire 5000 Equity Index.
  - d. American Stock Exchange Series.
  - e. NASDAQ Composite Index.
- Q3. Banz and Reinganum found that small firms consistently outperformed large firms. This anomaly is referred to as the
- a. large firm effect.
  - b. size effect.
  - c. small firm effect.
  - d. earnings effect.
  - e. none of the above.
- Q4. For an indexed portfolio, the fund manager will typically
- a. attempt to replicate the composition of the particular index exactly.
  - b. not replicate the composition of the particular index.
  - c. not alter the weights when the index composition is changed.
  - d. generate high trading expense ratios.
  - e. generate high management expense ratios.

**Continued...**

- Q5. The implication of efficient capital markets and a lack of superior analysts have led to the introduction of
- a. balanced funds.
  - b. naive funds.
  - c. january funds.
  - d. index funds.
  - e. futures options.
- Q6. It is important to understand behavioural finance. Behavioural finance differs from the standard model of finance because behavioural finance
- a. precludes the impact of investor psychology.
  - b. includes the impact of investor psychology.
  - c. accepts the efficient market hypothesis.
  - d. rejects the idea of market anomalies.
  - e. rejects the idea of technical analysis.
- Q7. Technical analysis is one of the approaches for stock selection. A chart used to show only significant price changes, regardless of their timing is:
- a. candlestick chart.
  - b. multiple indicator chart.
  - c. bar chart.
  - d. point-and-figure chart.
  - e. point-and-click chart.
- Q8. For technical trading rules to generate returns that are superior to a buy-and-hold strategy, net of transaction costs, the market would have to be
- a. rising.
  - b. falling.
  - c. inefficient.
  - d. overvalued.
  - e. undervalued.

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- Q9. Technical analysis differs from fundamental analysis in that
- Technical analysts contend that in-depth assessments of basic aggregate market, industry, and company performance is necessary; past price movements indicate future price movements.
  - Technical analysts believe the market value of common stocks is determined by the interaction of supply and demand.
  - Technical analysts argue that the market constantly weighs rational and irrational factors and that both of these affect price.
  - Technical analysts depend far more heavily on objective, data-based approaches than the fundamentalists do.
  - Technical analysts hold that the price of a security is determined by an expected return risk.
- Q10. A price range at which technicians feel that a significant increase in the price of the stock will be resisted is referred to as
- supply threshold.
  - support level.
  - short interest level.
  - advancement level.
  - resistance level.
- Q11. The dividend payout ratio for the aggregate market is 45 percent, the required rate of return is 18 percent, and the expected growth rate for dividends is 6 percent. Compute the current earnings multiple.
- 4.50
  - 1.80
  - 3.75
  - 4.00
  - 3.00
- Q12. In 2019, Mindful Berhad issued a RM50 par value preferred stock that pays a 6 percent annual dividend. Due to changes in the overall economy and the company's financial condition, investors are now requiring a 6 percent return. What price would you be willing to pay for a share of the preferred if you receive your first dividend one year from now?
- RM42.86
  - RM50.00
  - RM31.54
  - RM33.38
  - RM38.37

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- Q13. There are several techniques available to help an investor make a market decision. Which of the following is NOT such an analysis technique?
- a. Macro techniques that are based on the strong relationship between the economy and security markets.
  - b. Micro techniques that estimate future market values by applying one of several basic valuation models to equity markets.
  - c. Technical analysis is an investor analyses past and recent market movements for indications of future performance.
  - d. Fundamental analysis that considers the effect of market on the entire portfolio.
  - e. None of these are correct (that is, all are techniques available to make market decisions).
- Q14. Which of the following is an underlying assumption of the constant growth dividend discount model (DDM)?
- a. Dividends have a constant growth rate.
  - b. The constant growth rate of dividends will continue for an infinite time period.
  - c. The required rate of return is greater than the expected growth rate.
  - d. All of the above.
  - e. None of the above.
- Q15. Warren Buffet highlights business tenets that he believes are important. Which of the following is NOT a business tenet of Warren Buffet?
- a. Is the business unique and technologically advanced?
  - b. Does the business have a consistent operating history?
  - c. Does the business have favourable long-term prospects?
  - d. a and b above.
  - e. All of the above are business tenets of Warren Buffet.
- Q16. Toward the end of a recession,
- a. financial stocks rise on expectations of increases in loan demand, housing constructions and security offerings.
  - b. consumer durable stocks rise on expectations of rising consumer confidence and personal income.
  - c. capital goods stocks rise on expectation of increases in business capital spending.
  - d. basic materials stocks rise on expectation of rising profit margins.
  - e. consumer staple stocks rise on expectations that consumers will continue to spend on necessities.

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- Q17. At the initial stage of an economic recovery,
- a. consumer durable stocks rise on expectations of rising consumer confidence and personal income.
  - b. financial stocks rise on expectations of increases in loan demand, housing constructions and security offerings.
  - c. capital goods stocks rise on expectation of increases in business capital spending.
  - d. basic materials stocks rise on expectation of rising profit margins.
  - e. consumer staple stocks rise on expectations that consumers will continue to spend on necessities.
- Q18. Daniel Aziz Berhad's last dividend was RM2.70 and the board of directors expect to maintain the historic 3 percent annual rate of growth. You plan to purchase the stock today because you feel that the growth rate will increase to 5 percent for the next three years and the stock will then reach RM25 per share. How much should you be willing to pay for the stock if you require a 17 percent return?
- a. RM22.15
  - b. RM25.00
  - c. RM32.15
  - d. RM42.15
  - e. RM44.15
- Q19. Based on Stock Zeta Berhad's beta of 0.9, the normal return is 9%. However, the actual return for Stock Zeta Berhad was 8%. What is Stock Zeta Berhad's abnormal rate of return?
- a. -1.0%
  - b. -0.1%
  - c. 0.1%
  - d. 1.0%
  - e. 1.1%
- Q20. Which of the following indicator series had been derived by The National Bureau of Economic Research (NBER) in order to monitor business cycles?
- a. Money supply, leading, and lagging.
  - b. Leading, coincident, and consumer expectations.
  - c. Leading, coincident, and lagging.
  - d. Leading, coincident, and money supply.
  - e. Consumer expectations, leading, and lagging.

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**SECTION B (60 marks): Answer ALL questions.****Question 1**

- (a) Efficient market hypothesis states that stock prices reflect all available information. You are required to discuss any two (2) forms of efficient market hypothesis. (10 marks)
- (b) Technical analysis is useful in predicating future stock price movements. Describe buy and sell signals when using a simple 200 days moving average with daily closing prices of Aflac Mindful Berhad. (6 marks)
- (c) Discuss price-earning effect, one of the well-known anomalies. (4 marks)

**(Total: 20 marks)****Question 2**

- (a) Discuss what you understand by value stocks and defensive stocks. (8 marks)
- (b) Explain the significance of industry analysis. Describe five (5) stages of industrial life cycle by describing at least 2 characteristics of each stage. (12 marks)

**(Total: 20 marks)****Question 3**

- (a) Aminah was told that the required rate of return is 13 percent and a projected constant growth rate of 8 percent for Positive Energy Berhad. Compute the price of Positive Energy Berhad stock given the next dividend per share of RM0.75. Then, briefly discuss any four (4) disadvantages of the constant growth dividend discount model in its application to investment analysis. (8 marks)
- (b) Tata Berhad has just paid dividends of RM3 per share. The earnings per share for the company was RM4. If you believe that the appropriate discount rate is 11% and the long term growth rate in dividends is 5%, and earnings is 5%, you are required to compute the firm's price earnings (P/E) ratio. (5 marks)

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- (c) Use the information below for the following problems. Assuming an index is consisted of three stocks, namely Apple Berhad, Mango Berhad and Kiwi Berhad.

Stock	Number of Shares	Price	
		Day T (RM)	Day T + 1 (RM)
Apple	5,000,000	80	95
Mango	8,000,000	60	55
Kiwi	15,000,000	20	24

- i. Calculate the price weighted average of the index for Day T. (3 marks)

- ii. Calculate the market value weighted average of the index for Day T + 1. Assume a base index value of 100 on Day T. Then, compute the percentage change on Day T + 1.

(4 marks)

(Total: 20 marks)

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